

State of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** August 30, 2022

**TO:** Laura V. King, Chief of Reliability and Resource Planning, Division of Engineering

**FROM:** Division of Engineering (Thompson, Ellis) *TT PE TB*  
Division of Accounting and Finance (Richards, Higgins, Mouring) *CRR*  
Division of Economics (Bethea) *TB*  
Office of the General Counsel (Imig) *TLI*

**RE:** Docket No. 20220035-WS – Application for staff-assisted rate case in Polk County by S. V. Utilities, Ltd.

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**--STAFF REPORT--**

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled for September 29, 2022.

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## Case Background

S. V. Utilities, Ltd. (SV or Utility) is a Class C water and wastewater utility that began operations in 1981. The Utility provides water and wastewater service to approximately 707 residential and 6 general service customers in the Swiss Village, Hidden Cove East, and Hidden Cove West Mobile Home Parks in Polk County. The Utility is located within the Southwest Florida Water Management District. SV was granted Certificate Nos. 605-W and 521-S by the Commission in 1999.<sup>1</sup> The Utility's rates were last established during a staff-assisted rate case (SARC) in 2014.<sup>2</sup>

On February 11, 2022, SV filed an application for a SARC. Pursuant to Section 367.0814(2), Florida Statutes (F.S.), the official filing date of the SARC has been determined to be April 11, 2022. The 12-month period ending December 31, 2021, was selected as the test year for the instant case.

This Staff Report is a **preliminary** analysis of the Utility's application prepared by Commission staff to give customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed October 20, 2022, for consideration at the November 1, 2022 Commission Conference. The recommendation will be revised as necessary using any updated information, responses from pending data requests, and the results of customer quality of service concerns or other relevant information received at the September 29, 2022 customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

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<sup>1</sup>Order No. PSC-99-1234-PAA-WS, issued June 22, 1999, in Docket No. 19981337-WS, *In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by S.V. Utilities, Ltd.*

<sup>2</sup>Order No. PSC-14-0195-PAA-WS, issued May 1, 2014, in Docket No. 20130211-WS, *In re: Application for staff-assisted rate case in Polk County by S.V. Utilities, Ltd.*

## Discussion of Issues

**Issue 1:** Is the quality of service provided by S. V. Utilities, Ltd. satisfactory?

**Preliminary Recommendation:** Staff's recommendation regarding quality of service will not be finalized until after the September 29, 2022 customer meeting. (Thompson)

**Staff Analysis:** Pursuant to Section 367.081(2)(a)1, F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by the utility. This determination is made from an evaluation of the quality of the utility's product (water), and the utility's attempt to address customer satisfaction (water and wastewater). The Rule further states that the most recent chemical analyses for the water system, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, and any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating conditions of the water and wastewater systems are addressed in Issue 2.

### Quality of the Utility's Product

In evaluation of SV's product quality, staff reviewed the Utility's compliance with the DEP's primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. In the DEP's last Sanitary Survey Report dated September 16, 2021, no chemical or bacteriological exceedances were noted for the previous 12 months, and the Utility was determined to be in compliance with DEP standards. Staff also reviewed the DEP's triennial Safe Drinking Water Program chemical analysis of samples taken at the point of entry on June 16, 2021, and all of the contaminants were in compliance with DEP standards.

### The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's Consumer Activity Tracking System records, and there were no complaints recorded during the test year and four years prior for SV. Staff requested all complaints received by the Utility during the test year and four years prior, and the Utility responded that it did not receive any complaints during this timeframe. Staff also requested all complaints received by the DEP during the test year and four years prior, and the DEP responded that it did not receive any complaints for SV during this timeframe.

### Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the September 29, 2022 customer meeting.

Date: August 30, 2022

**Issue 2:** Are the infrastructure and operating conditions of S. V. Utilities, Ltd.'s water and wastewater systems in compliance with DEP regulations?

**Preliminary Recommendation:** Staff's recommendation regarding DEP compliance will not be finalized until after the September 29, 2022 customer meeting. (Thompson)

**Staff Analysis:** Rule 25-30.225(2), F.A.C., requires each water and wastewater utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys for water systems and compliance evaluation inspections for wastewater systems, citations, violations, and consent orders issued to the utility, customer testimony, comments, and complaints, and utility testimony and responses to the aforementioned items.

### **Water and Wastewater System Operating Conditions**

SV's water system has a permitted capacity of 432,000 gallons per day (gpd). The Utility's water system has two wells with pumping capacities of 300 gallons per minute (gpm) each, and two hydropneumatic storage tanks with capacities of 8,000 gallons each. Groundwater from the wells is treated through liquid chlorination. Staff reviewed SV's sanitary survey reports conducted by the DEP to determine the Utility's overall water facility compliance. A review of the inspection conducted on September 16, 2021, indicated that SV's water treatment facility is in compliance with the DEP's rules and regulations.

SV's wastewater system consists of a permitted 0.141 million gallons per day (MGD) three month rolling average daily flow (3MRADF) design capacity extended aeration domestic wastewater treatment plant (WWTP) that provides secondary treatment with basic disinfection. Staff reviewed the Utility's compliance evaluation inspections conducted by the DEP to determine the Utility's overall wastewater facility compliance. A review of the inspection conducted on October 15, 2020, indicated that SV's wastewater treatment facility was in compliance with the DEP's rules and regulations.

### **Conclusion**

Staff's recommendation regarding DEP compliance will not be finalized until after the September 29, 2022 customer meeting.

**Issue 3:** What are the used and useful (U&U) percentages of S. V. Utilities, Ltd.'s water treatment plant (WTP), WWTP, water distribution, and wastewater collection systems?

**Preliminary Recommendation:** SV's WTP, WWTP, water distribution, and wastewater collection systems should be considered 100 percent U&U. Additionally, staff recommends that a 2.1 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water (EUW). No adjustment is recommended for excessive infiltration and inflow (I&I) at this time. These are preliminary determinations and are subject to change. (Thompson)

**Staff Analysis:** SV's water and wastewater systems began operations in 1981. As stated in Issue 2, the Utility's water system has two wells with pumping capacities of 300 gpm each, and two hydropneumatic storage tanks with capacities of 8,000 gallons each. SV's water distribution system is composed of 165 feet of 1-inch polyvinyl chloride (PVC) pipe, 15,330 feet of 2-inch PVC pipe, 950 feet of 4-inch PVC pipe, and 17,075 feet of 6-inch PVC pipe. There are 49 fire hydrants throughout the water distribution system.

As stated in Issue 2, SV's wastewater system consists of a permitted 0.141 MGD 3MRADF design capacity extended aeration domestic WWTP. The Utility's wastewater collection system is composed of 2,600 feet of 4-inch PVC pipe, 9,700 feet of 6-inch PVC pipe, and 16,287 feet of 8-inch PVC pipe. There are 4 lift stations, and 54 manholes throughout the wastewater collection system.

### **Used and Useful Percentages**

Rule 25-30.432, F.A.C., addresses the method by which the U&U of a wastewater system is determined, and Rule 25-30.4325, F.A.C., addresses the method by which the U&U of a water system is determined. SV's U&U percentages were last determined in Docket No. 20130211-WS.<sup>3</sup> In that docket, the Commission determined the Utility's WTP, WWTP, water distribution, and wastewater collection systems to be 100 percent U&U. The Utility has not increased the capacity of its WTP or WWTP since rates were last established. The Utility's water distribution and wastewater collection systems continue to only provide service to existing customers, the service area remains built out, and there continues to be no potential for expansion of the service area. Therefore, consistent with the Commission's previous decision, staff recommends that the Utility's WTP, WWTP, water distribution, and wastewater collection systems be considered 100 percent U&U.

### **Excessive Unaccounted for Water**

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility.

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped and purchased for the test year,

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<sup>3</sup>Order No. PSC-14-0195-PAA-WS, issued May 1, 2014, in Docket No. 20130211-WS, *In re: Application for staff-assisted rate case in Polk County by S.V. Utilities, Ltd.*

and dividing by the sum of gallons pumped and purchased. The amount in excess of 10 percent, if any, is the EUW percentage. Based on monthly operating reports, SV produced 51,270,000 gallons of water from January 1, 2021, to December 31, 2021. No water was purchased during the test year. From the audit completed by staff, the Utility sold 39,558,173 gallons of water to customers. The Utility documented 5,507,000 gallons of water usage for line flushing. The resulting calculation  $([51,270,000 + 0 - 39,558,173 - 5,507,000] / [51,270,000 + 0])$  for unaccounted for water is 12.1 percent. Therefore, there is EUW of 2.1 percent. Staff recommends that a 2.1 percent adjustment be made to purchased power and chemicals; however, this adjustment is not reflected in the revenue requirement at this time. Further investigation will be conducted regarding this issue.

### **Infiltration and Inflow (I&I)**

Infiltration typically results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of residential water billed is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the WWTP amount of U&U, the Commission will consider I&I.

Since all wastewater collection systems experience I&I, the conventions noted above provide guidance for determining whether the I&I experienced at a WWTP is excessive. Staff calculates the allowable infiltration based on system parameters, and calculates the allowable inflow based on water billed to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water billed to residential customers with 90 percent of the water billed to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

From January 1, 2021, through December 31, 2021, the allowance for infiltration was calculated as 6,874,720 gallons, and the allowance for inflow was calculated as 2,928,561 gallons; therefore, the total I&I allowance was calculated as 9,803,281 gallons. Based on staff's audit, the total water billed to residential customers was 27,669,143 gallons, and the total water billed to general service customers was 1,616,470. Therefore, the estimated amount of wastewater returned from customers was calculated as 23,590,137 gallons. Summing the estimated return and the allowable I&I results in a maximum of 33,393,418 gallons of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. Based on the Utility's discharge monitoring reports, the actual amount of wastewater treated was 11,261,000 gallons from January 1, 2021, through December 31, 2021. Therefore, there is no excessive I&I and no adjustment to purchased power and chemicals is recommended at this time.

**Conclusion**

SV's WTP, WWTP, water distribution, and wastewater collection systems should be considered 100 percent U&U. Additionally, staff recommends that a 2.1 percent adjustment to purchased power and chemicals should be made for EUW. No adjustment is recommended for excessive I&I at this time. These are preliminary determinations and are subject to change.



**Issue 4:** What is the appropriate average test year rate base for S. V. Utilities, Ltd.?

**Preliminary Recommendation:** The appropriate average test year rate base for SV is \$192,902 for water and \$402,617 for wastewater. (Richards, Thompson)

**Staff Analysis:** The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, and working capital. Staff selected the test year ended December 31, 2021, for the instant rate case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USA). A summary of each component and the recommended adjustments are discussed below.

### **Utility Plant in Service (UPIS)**

The Utility recorded UPIS of \$627,412 for water and \$802,558 for wastewater. There was an auditing adjustment increasing UPIS by \$12,041, and \$17,913, for water and wastewater respectively. Additionally, staff made an adjustment further increasing UPIS by \$4,871 for water and decreasing UPIS by \$1,001 for wastewater to reflect the appropriate amounts in plant Accounts 341 and 391 - Transportation Equipment. Staff further increased UPIS by \$8,300 for water to reflect the replacement of a motor on Well No. 2 which happened during the test year. In order to reflect the test year beginning and ending UPIS average balance, staff made an adjustment decreasing UPIS by \$15,030, for water and decreasing UPIS by \$3,513 for wastewater.

### **Pro Forma Plant Additions**

Table 4-1 shows SV's two requested pro forma plant projects. For the Digester Repair project, the Utility stated that the walls of the digester at the WWTP were cracking. To resolve the issue, the interior of the digester was cleaned, concrete repairs were made, and the interior was coated, and new concrete walls were poured on the exterior of the digester. This project was completed in June 2022. Regarding the Electronic Meter Reading Equipment Upgrades project, the Utility stated that it is having issues capturing all of the readings from the meters due to the reading system being outdated and not functioning properly with the newer meters. To resolve the issue, the Utility intends to switch to new meter reading software. Staff will inquire as to the anticipated completion date for this project. SV also requested one operation and maintenance (O&M) pro forma project which is discussed in Issue 7.

As is Commission practice, staff requested that three bids be provided for each pro forma project. However, the Utility provided one bid for each item. According to the Utility, the vendor that provided a bid for the Digester Repair project was the only vendor that would provide a bid. Regarding the Electronic Meter Reading Equipment Upgrades project, this project is being completed by the same company that installed the Utility's water meters. Staff will provide a recommendation as to whether or not the project costs are appropriate in its final recommendation.

**Table 4-1  
 Pro-Forma Plant Projects**

<b>Project</b>	<b>Account Number</b>	<b>Amount</b>	<b>Retirement</b>
Digester Repair	380	\$99,740	-
Electronic Meter Reading Equipment Upgrades	334	\$3,009	(\$2,257)
<b>Total</b>	-	\$102,749	(\$2,257)

Source: Responses to staff data requests.

Based on the above, staff increased UPIS for water by \$3,009 to reflect pro forma additions, offset by a decrease of \$2,257 for pro forma retirements. Staff also increased UPIS for wastewater by \$99,740 to reflect pro forma additions; there was no retirement associated with the wastewater pro forma additions.

As described above and summarized in Table 4-2, staff's adjustments to UPIS result in an increase of \$10,935 for water and an increase of \$113,140 for wastewater. Therefore, staff recommends an average UPIS balance of \$638,347 (\$627,412 + \$10,935) for water and \$915,698 (\$802,558 + \$113,140) for wastewater.

**Table 4-2  
 Staff Adjustments to UPIS**

<b>Description</b>	<b>Water Adj.</b>	<b>Wastewater Adj.</b>
To reflect an auditing adjustment.	\$12,041	\$17,913
To reflect appropriate amount in transportation acct.	4,871	(1,001)
To reflect replacement of motor on Well No. 2.	8,300	0
To reflect an averaging adjustment.	(15,030)	(3,513)
To reflect pro forma addition.	3,009	99,740
To reflect pro forma retirement.	<u>(2,257)</u>	<u>0</u>
<b>Total adjustments to UPIS.</b>	<b><u>\$10,935</u></b>	<b><u>\$113,140</u></b>

Source: Utility responses to staff data requests.

### **Used and Useful**

As discussed in Issue 3, the Utility's systems are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

### **Land and Land Rights**

The Utility recorded land and land rights balances of \$2,621 and \$27,935 for water and wastewater, respectively. Staff made no adjustments to this account, therefore recommends land and land rights balance of \$2,621 for water and \$27,935 for wastewater.

### **Accumulated Depreciation**

The Utility recorded an accumulated depreciation balance of \$472,234 for water and \$553,874 for wastewater. Staff made an auditing adjustment increasing accumulated depreciation by \$6,145 for water and \$8,280 for wastewater. Additionally, staff made an adjustment increasing accumulated depreciation by \$190 for water and a decrease of \$1,945 for wastewater to reflect the appropriate amounts in plant Accounts 341 and 391 - Transportation Equipment. Staff

decreased accumulated depreciation by \$6,103 for water to reflect the replacement of the motor on Well No. 2. In order to reflect the test year beginning and ending accumulated average balance, staff decreased accumulated depreciation by \$5,674 and \$8,122 for water and wastewater, respectively. Staff also made an adjustment decreasing accumulated depreciation by \$2,213 for water, and increasing accumulated depreciation by \$6,649 for wastewater to reflect pro forma adjustments.

As described above and summarized in Table 4-3, staff's adjustments to accumulated depreciation result in a decrease of \$7,654 for water and an increase of \$4,863 for wastewater. Therefore, staff recommends an average accumulated depreciation balance of \$464,580 (\$472,234 - \$7,654) for water and \$558,737 (\$553,874 + \$4,863) for wastewater.

**Table 4-3  
 Staff Adjustments to Accumulated Depreciation**

Description	Water Adj.	Wastewater Adj.
To reflect an auditing adjustment.	\$6,145	\$8,280
To reflect appropriate amount in transportation acct.	190	(1,945)
To reflect replacement of motor on Well No. 2.	(6,103)	0
To reflect an averaging adjustment.	(5,674)	(8,122)
To reflect pro forma adjustments.	(2,213)	6,649
<b>Total adjustments to UPIS.</b>	<b>(\$7,654)</b>	<b>\$4,863</b>

Source: Utility responses to staff data requests.

**Working Capital Allowance**

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth O&M expense (less rate case expense) formula for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, for this calculation staff removed the rate case expense balance of \$912 for water and \$865 for wastewater. This resulted in an adjusted O&M expense balance of \$132,012 (\$133,024 - \$912) and \$141,770 (\$142,635 - \$865) for water and wastewater, respectively. Applying this formula, staff recommends a working capital allowance of \$16,514 (\$132,012 ÷ 8) for water and \$17,721 (\$141,770 ÷ 8) for wastewater.

**Rate Base Summary**

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$192,902 for water and \$402,617 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule No. 1-C.

**Issue 5:** What is the appropriate return on equity and overall rate of return for S. V. Utilities, Ltd.?

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 7.84 percent with a range of 6.84 percent to 8.84 percent. The appropriate overall rate of return is 7.84 percent. (Richards)

**Staff Analysis:** The Utility's reported capital structure consists of \$1,993,131 in common equity. The Utility has no debt nor customer deposits. Audit staff determined that no test year adjustments were necessary. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 7.84 percent based upon the Commission-approved leverage formula currently in effect.<sup>4</sup> Staff recommends an ROE of 7.84 percent, with a range of 6.84 percent to 8.84 percent, and an overall rate of return of 7.84 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>4</sup>Order No. PSC-2022-0208-PAA-WS, issued June 15, 2022, in Docket No. 20220006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

**Issue 6:** What are the appropriate amount of test year revenues for S. V. Utilities, Ltd.'s water and wastewater system?

**Preliminary Recommendation:** The appropriate test year revenues for SV's water system are \$104,124 and wastewater system are \$137,965. (Bethea)

**Staff Analysis:** The Utility recorded total test year revenues of \$99,428 for water and \$137,440 for wastewater. The Utility did not record any miscellaneous revenues during the test year. To determine the appropriate service revenues for water and wastewater, staff applied the number of billing determinants to the Utility's existing rates. As a result, staff determined that service revenues for water should be \$104,124, which is an increase of \$4,696 (\$104,124 - \$99,428). For wastewater, staff determined that service revenues should be \$137,965, which is an increase of \$525 (\$137,965 - \$137,440). Based on the above, the appropriate test year revenues for SV's water system are \$104,124 and \$137,965 for the wastewater system.

**Issue 7:** What is the appropriate operating expense for S. V. Utilities, Ltd.?

**Preliminary Recommendation:** That appropriate amount of operating expense for SV is \$157,961 for water and \$181,134 for wastewater (Richards, Thompson)

**Staff Analysis:** The Utility recorded operating expense of \$153,325 for water and \$168,320 for wastewater. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as described below.

### **Operation and Maintenance Expenses**

#### ***Contractual Services – Other (636 / 736)***

The Utility recorded contractual services – other expenses of \$37,664 for water and \$2,635 for wastewater. SV requested one O&M pro forma project: to have the interiors of its two water tanks coated. The water tanks are inspected every five years, and coated as needed based on the results of the inspections. The Utility only obtained one bid because only one vendor would bid the project. This project is anticipated to cost \$12,000, and is scheduled to be completed by the end of 2022. Based on the above, staff increased the contractual services – other expense for water by \$2,400 to reflect the pro forma cost of coating the interior of the water tanks amortized over five years. There was no adjustment to wastewater. Therefore, staff recommends contractual services – other expense of \$40,064 (\$37,664 + \$2,400) for water and \$2,635 for wastewater.

#### ***Transportation Expense (650 / 750)***

SV recorded transportation expenses of \$6,151 and \$7,073 for water and wastewater, respectively. Staff decreased this account by \$3,590 for water and \$2,972 for wastewater to reflect an auditing adjustment. Therefore, staff recommends transportation expense of \$2,561 (\$6,151 - \$3,590) for water and \$4,101 (\$7,073 - \$2,972) for wastewater.

#### ***Rate Case Expense (665 / 765)***

The Utility did not record any rate case expense. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$2,103. Staff calculated the distance from the Utility to Tallahassee as 243 miles. Based on the 2022 IRS business mileage rate of \$0.625,<sup>5</sup> staff calculated a round-trip travel expense to the Commission Conference and back, as well as one night of lodging to be \$504. The Utility retained the legal services of Dean Mead. Staff has estimated a consulting fee of \$2,500 for this rate case. Additionally, the Utility paid a filing fee of \$1,000 for water and \$1,000 for wastewater.<sup>6</sup>

Staff calculated the total amount of noticing costs, travel expense and consulting fee of \$5,107 (\$2,086 + \$504 + \$2,500). Staff allocated these costs based on ERCs, resulting in 52 percent costs for water and 48 percent costs for wastewater, or \$2,649 and \$2,458 respectively. Staff recommends total rate case expense of \$3,649 (\$2,649 + \$1,000) for water, which amortized over four years is \$912 (\$3,649 ÷ 4 years); and total rate case expense of \$3,458 (\$2,458 + \$1,000) for

<sup>5</sup><https://www.irs.gov/newsroom/irs-increases-mileage-rate-for-remainder-of-2022>.

<sup>6</sup>Document No. 02347-2022, filed on April 11, 2022.

wastewater, which amortized over four years is \$865 ( $\$3,458 \div 4$  years). Therefore, staff recommends rate case expense of \$912 for water and \$865 for wastewater.

### **Bad Debt Expense (670 / 770)**

The Utility recorded bad debt expense of \$421 for water and \$371 for wastewater. For purposes of the staff report, staff increased these amounts by \$1,661 and \$2,388 for water and wastewater, respectively. These increases reflect bad debt as 2 percent of the revenues for the Utility, but staff notes that the preliminary recommended increase requires additional review. Therefore, staff recommends bad debt expense of \$2,082 ( $\$421 + \$1,661$ ) for water and \$2,759 ( $\$371 + \$2,388$ ) for wastewater.

### **Operation and Maintenance Expense Summary**

The Utility recorded test year O&M expenses of \$131,640 for water and \$142,354 for wastewater. Based on the above adjustments, staff recommends the O&M expense be increased by \$1,384 for water and \$281 for wastewater. This results in total O&M expenses of \$133,024 ( $\$131,640 + \$1,384$ ) for water and \$142,635 ( $\$142,354 + \$281$ ) for wastewater. At this time, staff is not making an adjustment for EUW. Staff's recommended adjustments to O&M expenses are shown on Schedules 3-D and 3-E.

### **Depreciation Expense**

The Utility recorded depreciation expense of \$17,211 for water and \$19,775 for wastewater. Using the depreciation rates prescribed in Rule 25-30.140, F.A.C., staff increased depreciation expense for water by \$122 to reflect the motor replacement on Well No. 2, and decreased depreciation by \$242 to reflect the appropriate amount in plant Account 341 – Transportation Equipment. Additionally, staff increased depreciation expense for wastewater by \$736 to reflect the appropriate amount in plant Account 391 – Transportation Equipment. Staff further increased depreciation expense by \$44 for water and \$6,649 wastewater to reflect the incremental depreciation expense associated with pro forma investments. These adjustments result in a net decrease of \$76 ( $\$122 - \$242 + \$44$ ) for water, and an increase of \$7,385 ( $\$736 + \$6,649$ ) for wastewater. Therefore, staff recommends depreciation expense of \$17,135 ( $\$17,211 - \$76$ ) for water and \$27,160 ( $\$19,775 + \$7,385$ ) for wastewater.

### **Taxes Other Than Income (TOTI)**

The Utility recorded TOTI of \$4,474 for water and \$6,191 for wastewater. Staff increased TOTI by \$211 for water and \$18 for wastewater to reflect the appropriate Regulatory Assessment Fees (RAFs) based on corrected Utility test year revenues. Staff further increased TOTI by \$14 for water and \$1,767 for wastewater to reflect property taxes associated with pro forma additions. As discussed in Issue 9, staff recommends revenues be increased by \$68,961 for water and \$74,734 for wastewater in order to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$3,303 for water and \$3,363 for wastewater to reflect RAFs of 4.5 percent of the change in revenues. Therefore, staff recommends TOTI of \$7,802 ( $\$4,474 + \$211 + \$14 + \$3,103$ ) for water and \$11,338 ( $\$6,191 + \$18 + \$1,767 + \$3,363$ ) for wastewater.

**Operating Expenses Summary**

The Utility recorded operating expenses of \$153,325 for water and \$168,320 for wastewater. The application of staff's recommended adjustments to the Utility's operating expenses result in a total operating expense of \$157,961 for water and \$181,134 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B, and the related adjustments are shown on Schedule No. 3-C.



**Issue 8:** Does S. V. Utilities, Ltd. meet the criteria for application of the Operating Ratio Methodology?

**Preliminary Recommendation:** No. SV does not meet the requirement for application of the Operating Ratio Methodology for calculating revenue requirement. (Richards)

**Staff Analysis:** Rule 25-30.4575(2), F.A.C., provides that, in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the Utility's revenue requirement when its rate base is not greater than 125 percent of O&M expenses and the use of the Operating Ratio Methodology does not change the Utility's qualification for a SARC.

Under the Operating Ratio Methodology, instead of calculating the Utility's revenue requirement based on a rate of return on rate base, the revenue requirement is calculated using a margin of 12 percent of O&M expenses, not to exceed \$15,000. Purchased water and wastewater expenses, if any, must be removed from O&M expense prior to calculating the margin of 12 percent.

With respect to SV staff has recommended a rate base of \$192,902 for water and \$402,617 for wastewater. Staff has also calculated an O&M expense of \$133,024 and \$142,635 for water and wastewater, respectively (Issues 4 and 7). Based on staff's recommended amounts, the Utility's rate base is 145 percent of its O&M expense for water, and 282 percent of its O&M expense for wastewater. Based on this, the Utility does not qualify for application of the Operating Ratio Methodology.

**Issue 9:** What is the appropriate revenue requirement for S. V. Utilities, Ltd.?

**Preliminary Recommendation:** The appropriate revenue requirement is \$173,085 for water, resulting in an annual increase of \$68,961 (66.23 percent). The appropriate revenue requirement is \$212,699 for wastewater, resulting in an annual increase of \$74,734 (54.17 percent). (Richards)

**Staff Analysis:** SV should be allowed an annual increase of \$68,961 (66.23 percent) for water and an annual increase of \$74,734 (54.17 percent) for wastewater. This should allow the Utility the opportunity to recover its expenses and earn a 7.84 percent return on rate base for water and wastewater. The calculations for water are shown in Table 9-1, and for wastewater in Table 9-2.

**Table 9-1  
 Water Revenue Requirement**

Water Rate Base	\$192,902
Rate of Return	<u>7.84%</u>
Return on Rate Base	<u>\$15,123</u>
Water O&M Expense	\$133,024
Depreciation Expense	\$17,135
Taxes Other Than Income	<u>\$7,802</u>
Revenue Requirement	<u>\$173,085</u>
Less Test Year Revenues	<u>\$104,124</u>
Annual Increase / (Decrease)	\$68,961
Percent Increase / (Decrease)	66.23%

Source: Staff calculations.

**Table 9-2  
 Wastewater Revenue Requirement**

Wastewater Rate Base	\$402,617
Rate of Return	<u>7.84%</u>
Return on Rate Base	<u>\$31,565</u>
Wastewater O&M Expense	\$142,635
Depreciation Expense	\$27,160
Taxes Other Than Income	<u>\$11,338</u>
Revenue Requirement	<u>\$212,699</u>
Less Test Year Revenues	<u>\$137,965</u>
Annual Increase / (Decrease)	\$74,734
Percent Increase / (Decrease)	54.17%

Source: Staff calculations.

**Issue 10:** What are the appropriate rate structures and rates for the water and wastewater systems of S. V. Utilities, Ltd.?

**Preliminary Recommendation:** The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of this notice. (Bethea)

**Staff Analysis:**

**Water Rates**

The Utility is located in Polk County within the Southwest Florida Water Management District. SV provides water service to approximately 707 residential customers and 6 general service customers. A review of the billing data indicates approximately 15 percent of the residential bills during the test year had zero gallons, which indicates a non-seasonal customer base. The average residential water demand was 4,145 gallons per month. The average water demand, excluding zero gallon bills, was 4,847 gallons per month.

Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and a two-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; and (2) all usage in excess of 5,000 gallons per month. General service rate structure consists of a monthly BFC and a gallonage charge.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In this case, staff recommends that 40 percent of the water revenues be generated from the BFC, which will provide sufficient revenues to design gallonage charges that send pricing signals to customers using above the non-discretionary level. The average people per household served by the water system is 3.0; therefore, based on the number of people per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 5,000 gallons per month.<sup>7</sup> Staff's review of the billing analysis indicates that the discretionary usage above 5,000 gallons represents 28 percent of the bills, which accounts for approximately 36 percent of the water demand. This is considered moderately high discretionary usage for this customer base.

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<sup>7</sup>Average person per household was obtained from [www.census.gov/quickfacts/polkcounty](http://www.census.gov/quickfacts/polkcounty), Florida.

For this case, staff recommends a BFC and a three-tier inclining block rate structure, which includes separate gallonage charges for discretionary and non-discretionary usage for residential water customers. The rate blocks are: (1) 0-5,000 gallons; (2) 5,001-10,000 gallons; (3) all usage in excess of 10,000 gallons per month. This rate structure sends the appropriate pricing signals because it targets customers with high consumption levels and minimizes price increases for customers at non-discretionary levels. In addition, the third tier provides an additional pricing signal to customers using in excess of 10,000 gallons of water per month, which represents approximately 16 percent of the usage. General service customers should be billed a BFC and a gallonage charge.

Based on staff's recommended revenue increase of 66.2 percent, the residential consumption can be expected to decline by 3,774,000 gallons resulting in anticipated average residential demand of 3,701 gallons per month. Staff recommends a 10.7 percent reduction in test year residential gallons for rate setting purposes. As a result, the corresponding reductions are \$828 for purchased power expense, \$434 for chemical expense, and \$59 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$171,766.

### **Wastewater Rates**

SV provides wastewater service to approximately 707 residential customers and 6 general service customers. Currently, the wastewater rate structure for residential customers consists of a monthly uniform BFC for all meter sizes and gallonage charge with a 8,000 gallonage cap. General service customers are billed a BFC by meter size and gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap, where appropriate, that considers approximately the amount of water that may return to the wastewater system.

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. SV's current residential wastewater cap is 8,000 gallons per month. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water sold. Based on staff's review of the billing analysis, approximately 80 percent of the residential gallons are captured at the 8,000 gallon consumption level. For this reason, staff recommends a continuation of the Utility's current gallonage cap of 8,000 gallons per month.

General service customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. Staff evaluates wastewater repression between the non-discretionary water threshold (5,000 gallons) and the wastewater gallonage cap (8,000 gallons). Between those two levels, the expected wastewater repression is de minimis. Therefore, staff does not recommend a repression adjustment for wastewater.

**Conclusion**

Based on the above, the recommended rate structures and monthly water and wastewater rates are shown on Schedule No. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

**Issue 11:** What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

**Preliminary Recommendation:** The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. SV should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase and the reduction in the rates due to the amortized rate case expense. (Richards, Bethea) (Procedural Agency Action)

**Staff Analysis:** Section 367.081(8), F.S., requires that the rates be reduced by the amount of the rate case expense previously included in rates immediately following the expiration of the recovery period. With respect to SV the reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is \$955 for water and \$905 for wastewater.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. SV should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase and the reduction in the rates due to the amortized rate case expense.

**Issue 12:** Should the recommended rates be approved for S. V. Utilities, Ltd. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

**Preliminary Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. SV should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Further, prior to implementing any temporary rates, the Utility should provide appropriate financial security.

If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating both the current monthly and total amount subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Richards) (Procedural Agency Action)

**Staff Analysis:** This recommendation proposes an increase in rates. A timely protest might delay a rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the proposed rates be approved on a temporary basis. SV should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the Utility should be subject to the refund provisions discussed below.

SV should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$97,291. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond for securing the potential refund, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1. The Commission approves the rate increase; or,
2. If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit for securing the potential refund, the letter of credit should contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
2. No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee.
3. The escrow account shall be an interest bearing account.
4. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
5. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility.
6. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
7. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
8. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
9. The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund



at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

<b>S. V. UTILITIES, LTD</b>		<b>SCHEDULE NO. 1-A</b>		
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220035-WS</b>		
<b>SCHEDULE OF WATER RATE BASE</b>				
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUST.</b>	<b>BALANCE PER STAFF</b>	
1. UTILITY PLANT IN SERVICE	\$627,412	\$10,935	\$638,347	
2. LAND & LAND RIGHTS	2,621	0	2,621	
3. ACCUMULATED DEPRECIATION	(472,234)	7,654	(464,580)	
4. CIAC	0	0	0	
5. ACCUMULATED AMORT. CIAC	0	0	0	
6. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$16,514</u>	<u>\$16,514</u>	
7. WATER RATE BASE	<u>\$157,799</u>	<u>\$35,103</u>	<u>\$192,902</u>	

<b>S. V. UTILITIES, LTD</b>		<b>SCHEDULE NO. 1-B</b>		
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220035-WS</b>		
<b>SCHEDULE OF WASTEWATER RATE BASE</b>				
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUST.</b>	<b>BALANCE PER STAFF</b>	
1. UTILITY PLANT IN SERVICE	\$802,558	\$113,140	\$915,698	
2. LAND & LAND RIGHTS	27,935	0	27,935	
3. ACCUMULATED DEPRECIATION	(533,874)	(4,863)	(558,737)	
4. CIAC	0	0	0	
5. ACCUMULATED AMORT. CIAC	0	0	0	
6. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$17,721</u>	<u>\$17,721</u>	
7. WASTEWATER RATE BASE	<u>\$276,619</u>	<u>\$125,998</u>	<u>\$402,617</u>	

<b>S. V. UTILITIES, LTD</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220035-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>			
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect an auditing adjustment.	\$12,041	\$17,913	
2. To reflect the appropriate amount in transportation acct.	4,871	(1,001)	
3. To reflect replacement of motor on Well No. 2.	8,300	0	
4. To reflect an averaging adjustment.	(15,030)	(3,513)	
5. To reflect pro forma additions.	3,009	99,740	
6. To reflect pro forma retirement.	<u>(\$2,257)</u>	<u>\$0</u>	
Total adjustments.	<u>\$10,935</u>	<u>\$113,140</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect an auditing adjustment.	(\$6,145)	(\$8,280)	
2. To reflect the appropriate amount in transportation acct.	(190)	1,945	
3. To reflect replacement of motor on Well No. 2.	6,103	0	
4. To reflect an averaging adjustment.	5,674	8,122	
5. To reflect pro forma adjustments.	<u>\$2,213</u>	<u>(\$6,649)</u>	
Total adjustments	<u>\$7,654</u>	<u>(\$4,863)</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
To reflect 1/8 of test year O&M expenses.	<u>\$16,514</u>	<u>\$17,721</u>	

<b>S. V. UTILITIES, LTD</b>				<b>SCHEDULE NO. 2</b>		
<b>TEST YEAR ENDED 12/31/2021</b>				<b>DOCKET NO. 20220035-WS</b>		
<b>SCHEDULE OF CAPITAL STRUCTURE</b>						
<b>COMPONENT</b>	<b>BALANCE PER UTILITY</b>	<b>PRO RATA ADJUST- MENTS</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. LONG-TERM DEBT	\$0	\$0	\$0	0%	0%	0%
2. SHORT-TERM DEBT	0	0	0	0%	0%	0%
3. COMMON EQUITY	1,993,131	(1,397,612)	595,519	100%	7.84%	7.84%
4. CUSTOMER DEPOSITS	0	0	0	0%	2%	0%
5. DEFERRED INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0%</u>	0%	<u>0%</u>
6. TOTAL CAPITAL	<u>\$1,993,131</u>	<u>(\$1,397,612)</u>	<u>\$595,519</u>	<u>100%</u>		<u>7.84%</u>
<b>RANGE OF REASONABLENESS</b>					<b><u>LOW</u></b>	<b><u>HIGH</u></b>
RETURN ON EQUITY					6.84%	8.84%
OVERALL RATE OF RETURN					6.84%	8.84%

<b>S. V. UTILITIES, LTD</b>			<b>SCHEDULE NO. 3-A</b>			
<b>TEST YEAR ENDED 12/31/2021</b>			<b>DOCKET NO. 20220035-WS</b>			
<b>SCHEDULE OF WATER OPERATING INCOME</b>						
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>	
1.	<b>TOTAL OPERATING REVENUES</b>	\$99,428	\$4,696	\$104,124	\$68,961 66.23%	\$173,085
<b>OPERATING EXPENSES</b>						
2.	OPERATION & MAINTENANCE	\$131,640	\$1,384	\$133,024	\$0	\$133,024
3.	DEPRECIATION	17,211	(76)	17,135	0	17,135
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	4,474	225	4,699	3,103	7,802
6.	INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	<b>TOTAL OPERATING EXPENSES</b>	<u>\$153,325</u>	<u>\$1,533</u>	<u>\$154,858</u>	<u>\$3,103</u>	<u>\$157,961</u>
7.	<b>OPERATING INCOME / (LOSS)</b>	(\$53,897)		(\$50,734)		\$15,123
8.	<b>WATER RATE BASE</b>	\$157,799				\$192,902
9.	<b>RATE OF RETURN</b>	(34.15%)				7.84%

<b>S. V. UTILITIES, LTD</b>			<b>SCHEDULE NO. 3-B</b>			
<b>TEST YEAR ENDED 12/31/2021</b>			<b>DOCKET NO. 20220035-WS</b>			
<b>SCHEDULE OF WASTEWATER OPERATING INCOME</b>						
	<b>TEST YEAR PER UTILITY</b>	<b>STAFF ADJUST- MENTS</b>	<b>STAFF ADJUSTED TEST YEAR</b>	<b>ADJUST FOR INCREASE</b>	<b>REVENUE REQUIREMENT</b>	
1.	<b>TOTAL OPERATING REVENUES</b>	\$137,567	\$398	\$137,965	\$74,734 54.17%	\$212,699
<b>OPERATING EXPENSES</b>						
2.	OPERATION & MAINTENANCE	\$142,354	\$281	\$142,635	\$0	\$142,635
3.	DEPRECIATION	19,775	7,385	27,160	0	27,160
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	6,191	1,785	7,975	3,363	11,338
6.	INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
	<b>TOTAL OPERATING EXPENSES</b>	<u>\$168,320</u>	<u>\$9,451</u>	<u>\$177,771</u>	<u>\$3,363</u>	<u>\$181,134</u>
7.	<b>OPERATING INCOME / (LOSS)</b>	(\$30,753)		(40,262)		\$31,565
8.	<b>WASTEWATER RATE BASE</b>	\$276,619				\$402,617
9.	<b>RATE OF RETURN</b>	(11.12%)				7.84%

<b>S. V. UTILITIES, LTD</b>		<b>SCHEDULE NO. 3-C</b>	
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220035-WS</b>	
<b>ADJUSTMENTS TO OPERATING INCOME</b>			
	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>	
<b>OPERATING REVENUES</b>			
To reflect the appropriate test year service revenues.	<u>\$4,969</u>	<u>\$398</u>	
<b>OPERATION AND MAINTENANCE EXPENSE</b>			
1. Contractual Services – Other (636 / 736)			
To reflect pro forma coating water tanks amortized five years.	<u>\$2,400</u>	<u>\$0</u>	
2. Transportation Expense (650 / 750)			
To reflect an auditing adjustment.	<u>(\$3,590)</u>	<u>(\$2,972)</u>	
3. Rate Case Expense (665 / 765)			
To reflect 1/4 rate case expense.	<u>\$912</u>	<u>\$865</u>	
4. Bad Debt Expense (670 / 770)			
To reflect 2 percent of test year revenues.	<u>\$1,661</u>	<u>\$2,388</u>	
<b>TOTAL OPERATION AND MAINTENANCE EXPENSE</b>	<b><u>\$1,384</u></b>	<b><u>\$281</u></b>	
<b>DEPRECIATION EXPENSE</b>			
1. To reflect appropriate amount in transportation account.	(\$242)	\$736	
2. To reflect replacement of motor on Well No. 2.	122	0	
3. To reflect pro forma adjustments.	<u>\$44</u>	<u>\$6,649</u>	
Total	<u>(\$76)</u>	<u>\$7,385</u>	
<b>TAXES OTHER THAN INCOME</b>			
1. To reflect appropriate test year RAFs.	\$211	\$18	
2. To reflect property taxes associated with pro forma adjustment.	<u>\$14</u>	<u>\$1,767</u>	
Total	<u>\$225</u>	<u>\$1,785</u>	
<b>TOTAL OPERATING EXPENSE</b>	<b><u>\$1,533</u></b>	<b><u>\$9,451</u></b>	



<b>S. V. UTILITIES, LTD</b>		<b>SCHEDULE NO. 3-D</b>		
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220035-WS</b>		
<b>ANALYSIS OF WATER O&amp;M EXPENSE</b>				
<b>ACCT.</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
601	Salaries and Wages – Employees	\$56,176	\$0	\$56,176
615	Purchased Power	8,678	0	8,678
618	Chemicals	4,527	0	4,527
620	Materials and Supplies	6,362	0	6,362
631	Contractual Services – Professional	1,153	0	1,153
635	Contractual Services – Testing	3,912	0	3,912
636	Contractual Services – Other	37,664	2,400	40,064
650	Transportation Expense	6,151	(3,590)	2,561
655	Insurance Expense	4,738	0	4,738
665	Rate Case Expense	0	912	912
670	Bad Debt Expense	421	1,661	2,082
675	Miscellaneous Expenses	<u>\$1,858</u>	<u>\$0</u>	<u>\$1,858</u>
	Total O&M Expense	<u>\$131,640</u>	<u>\$1,384</u>	<u>\$133,024</u>
	Working Capital is 1/8 O&M less RCE			\$16,514

<b>S. V. UTILITIES, LTD</b>		<b>SCHEDULE NO. 3-E</b>		
<b>TEST YEAR ENDED 12/31/2021</b>		<b>DOCKET NO. 20220035-WS</b>		
<b>ANALYSIS OF WASTEWATER O&amp;M EXPENSE</b>				
<b>ACCT.</b>	<b>DESCRIPTION</b>	<b>TOTAL PER UTILITY</b>	<b>STAFF ADJUST- MENT</b>	<b>TOTAL PER STAFF</b>
701	Salaries and Wages – Employees	\$64,753	\$0	\$64,753
711	Sludge Removal Expense	21,035	0	21,035
715	Purchased Power	16,051	0	16,051
718	Chemicals	7,699	0	7,699
720	Materials and Supplies	4,567	0	4,567
731	Contractual Services – Professional	10,620	0	10,620
735	Contractual Services – Testing	2,045	0	2,045
736	Contractual Services – Other	2,635	0	2,635
750	Transportation Expense	7,073	(2,972)	4,101
755	Insurance Expense	4,738	0	4,738
765	Rate Case Expense	0	865	865
770	Bad Debt Expense	371	2,388	2,759
775	Miscellaneous Expenses	<u>\$767</u>	<u>\$0</u>	<u>\$767</u>
	Total O&M Expense	<u>\$142,354</u>	<u>\$281</u>	<u>\$142,635</u>
	Working Capital is 1/8 O&M less RCE			\$17,721

<b>S. V. UTILITIES, LTD.</b>		<b>SCHEDULE NO. 4-A</b>	
<b>TEST YEAR ENDED DECEMBER 31, 2021</b>		<b>DOCKET NO. 20220035-WS</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4-YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$4.42	\$7.20	\$0.04
3/4"	\$6.63	\$10.80	\$0.06
1"	\$11.05	\$18.00	\$0.10
1-1/4"	\$17.68	\$28.80	\$0.16
1-1/2"	\$22.10	\$36.00	\$0.20
2"	\$35.36	\$57.60	\$0.32
3"	\$70.72	\$115.20	\$0.63
4"	\$110.50	\$180.00	\$0.99
6"	\$221.00	\$360.00	\$1.98
8"	\$353.60	\$576.00	\$3.17
Charge per 1,000 gallons - Residential			
0 - 5,000 gallons	\$1.29	N/A	N/A
Over 5,000 gallons	\$1.96	N/A	N/A
Charge per 1,000 gallons - Residential			
0 - 5,000 gallons	N/A	\$2.53	\$0.01
5,001 - 10,000 gallons	N/A	\$3.40	\$0.02
Over 10,000 gallons	N/A	\$4.25	\$0.02
Charge per 1,000 gallons - General Service			
	\$1.44	\$2.88	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$7.00	\$14.00	
4,000 Gallons	\$9.58	\$17.32	
6,000 Gallons	\$12.83	\$23.25	

<b>S. V. UTILITIES, LTD.</b>		<b>SCHEDULE NO. 4-B</b>	
<b>TEST YEAR ENDED DECEMBER 31, 2021</b>		<b>DOCKET NO. 20220035-WS</b>	
<b>MONTHLY WASTEWATER RATES</b>			
	<b>UTILITY CURRENT RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>4-YEAR RATE REDUCTION</b>
<b><u>Residential and General Service</u></b>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$9.09	\$12.22	\$0.05
3/4"	\$13.64	\$18.33	\$0.08
1"	\$22.73	\$30.55	\$0.13
1-1/4"	\$36.36	\$48.88	\$0.21
1-1/2"	\$45.45	\$61.10	\$0.26
2"	\$72.72	\$97.76	\$0.42
3"	\$145.44	\$195.52	\$0.84
4"	\$227.25	\$305.50	\$1.31
6"	\$454.50	\$611.00	\$2.63
8"	\$727.20	\$977.60	\$4.20
Charge per 1,000 gallons - Residential (8,000 gallons cap)	\$1.99	\$3.58	\$0.02
Charge per 1,000 gallons - General Service	\$2.38	\$4.30	\$0.02
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
2,000 Gallons	\$13.07	\$19.38	
4,000 Gallons	\$17.05	\$26.54	
6,000 Gallons	\$21.03	\$33.70	